FUND PERFORMANCE UPDATE

June 2014

Nikko AM Shenton Asia Bond Fund

Highlights

- The Fund returned -0.23% in June, underperforming the benchmark by 6 basis points (bps).
- At its policy meeting in June, the Federal Open Market Committee (FOMC) reaffirmed its monetary policy stance even as the US economy continues to gain momentum. The US Federal Reserve (Fed) left its benchmark interest rates unchanged at 0.25% and cut its bond-buying program by another USD 10bn. Meanwhile, the Philippines central bank increased the Special Deposit Accounts (SDA) facility rate in order to curb liquidity, while the Reserve Bank of India (RBI) lowered its Statutory Liquidity Ratio (SLR) to induce liquidity into the system. Elsewhere, Bank Indonesia (BI) maintained its policy rate and its 2014 budget deficit was finalised to 2.4% of GDP. Likewise, Bank of Thailand (BoT) maintained its policy interest rate during the month. Its fiscal budget for 2015 has also been approved, which is expected to kick-start the much needed government spending to help restore the ailing economy. In the same period, China introduced more targeted monetary easing measures, including the targeted 50bps reduction in the required reserve ratio (RRR).
- We are positive on Malaysia, Thailand and South Korea. Specifically, given the gradual rise in inflation and modest growth in Malaysia, we expect the central bank of Malaysia to adopt a more hawkish bias in the future, which will likely support the ringgit. In Thailand, we expect the economic activities to head toward a slow pick-up in the months ahead as the political uncertainties have reduced significantly. Also, we expect South Korea to remain well supported by its strong current account position. Meanwhile, we are neutral on Indonesia as the country heads for tight presidential race with the margin of electability between Jokowi and Prabowo narrowed significantly during the recent polls. On economic front, we expect BI to maintain its key rates for the rest of 2014 as inflationary pressures remain manageable.

Performance Review

	Currency	Performance		
		June 2014 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Shenton Asia Bond Fund (Net of fees)	SGD	-0.23	1.77	1.23
Nikko AM Shenton Asia Bond Fund (Net of fees and charges[1])	SGD	-5.22	-3.32	0.64
Benchmark (HSBC Asian Local Bond Index (ALBI)) [2]	SGD	-0.17	3.67	N/A

Source: ©2014 Morningstar & Nikko Asset Management Asia Limited as of 30 June 2014. All returns are calculated on a NAV-NAV basis and assuming all dividends and distributions are re-invested if any. Past performance is not necessarily indicative of future performance.

[1]Takes into account sales and realization charges, where applicable.
[2]Benchmark started on 1 Oct 2011
Since inception: 1 Aug 2005

The Fund lost in June

The Fund returned -0.23% in June, underperforming the benchmark by 6bps. During the month, Asian currencies mostly depreciated against SGD with the exception of Thai baht due to the stabilising political situation. At the same time, most Asian government bonds fell, in line with the weakness in US Treasuries (UST) and also on hawkish stance exhibited by some central banks within the region. In particular, Bangko Sentral ng Pilipinas (BSP) decided to hike the SDA rate and BoT decided to stay pat on its monetary policy despite about 6 months of political and economic stalemate.

Market Review

Geopolitical risks in Iraq and dovish central banks stance capped rise in UST yields
During the FOMC meeting in June, US Fed Chairperson Janet Yellen reiterated that the Fed is still committed to its accommodative policy stance even as the US economy continues to show signs of gradual recovery. As expected, the Fed kept rates unchanged at 0.25% and continued with the quantitative easing tapering by another USD 10bn to USD 35bn per month. Overall, 10-year UST yields were higher by about 5bps in June on improving US economic data. The rise in yields was however capped by the escalating geopolitical risks in Iraq and dovish stance from the US Fed and European Central Bank.

Philippines hiked SDA rate by 25bps
BSP kept reverse repo rate unchanged but increased the SDA rate by 25bps to 2.25%, a moderate tightening policy after increasing its RRR earlier. However, the central bank kept its policy rate on hold at 3.50%, reflecting the BSP's reluctance to tweak their official policy rates. The decision to raise SDA rates reflects the BSP's upwardly revised inflation forecasts; BSP has increased its average inflation outlook to 4.4% for 2014 (from 4.3%) and its 2015 forecast to 3.7% (from 3.4%).

BI kept rates unchanged; budget revision finalised
In line with market expectations, BI kept its policy rate unchanged in June. Meanwhile, the 2014 budget deficit has been finalised to 2.4% of GDP from the initial proposal of 2.5%. The Indonesian government will finance the budget deficit by increasing the bond sales by IDR 59.9tn instead of the initial proposal of IDR 69tn.

BoT kept rates unchanged as economic and political outlook stabilises
BoT voted unanimously in June to keep the policy rate at 2% in view that the current rate remains sufficiently accommodative. Also, the central bank expects the economic outlook to improve, given the significant reduction in political uncertainties. In addition, Thailand's consumer confidence index improved to 70.7 in May compared with 67.8 in April. Furthermore, both investment activity and private consumption were up strongly in May on a month-on-month basis. Meanwhile, Thailand's political situation has started to show signs of stabilising after the military government took control in May and street protest has waned significantly since then. The fiscal budget for 2015 has been approved, which is expected to help kick-start the much needed government spending projects to lift the ailing economy.

India reduced SLR by 50bps
During the Monetary Policy Committee meetings in June, the RBI kept its key policy rates unchanged, as per market expectation. However, RBI reduced the SLR, the amount that banks have to keep in government bonds, by 50bps to 22.5% of deposits. RBI stated that it may ease rates if inflation cools faster than expected, less hawkish than previous comments.

China expanded targeted monetary easing measures
Market sentiment in China was lifted following the announcements of increased targeted liquidity and credit easing by the People's Bank of China. Specifically, the State Council unveiled a targeted 50bps reduction in the RRR for financial institutions with sizeable loans to the agricultural sector and small- and medium-sized enterprises, effective from 16 June 2014. This, together with the RRR cut for county-level rural banks in April, may release about CNY 200bn liquidity in the banking system, compared with CNY 540bn from a 50bps system-wide RRR cut.

Market Outlook & Strategy

Positive on Malaysia, Thailand and South Korea
Given the gradual rise in inflation and modest growth in Malaysia, we expect Bank Negara Malaysia to adopt a more hawkish bias in the future which will likely support the ringgit. In addition, given that Malaysia is a net oil exporting country, we expect the nation to be less vulnerable to the rise in oil price caused by the current crisis in Iraq. Elsewhere, the economic and political situation in Thailand has stabilised following the military coup in May. After several months of political stalemate and economic deterioration, we expect

economic activities to bottom out and head toward a slow pick-up in the months ahead. Against this backdrop, we are mildly positive on Thailand while being mindful of the country's political developments. Meanwhile, we expect South Korea to remain well supported by its strong current account position. Of note, South Korea's current account reached a USD 9.3bn surplus in May, resulting in a total of USD 31.5bn cumulative surplus from January 2014 to May 2014.

Neutral on Indonesia

Given the tight presidential race, we prefer to stay neutral on Indonesia for the time being. So far, the market has favoured and expected Jokowi to win the presidential election. However, recent polls have shown that the margin between the two candidates, Jokowi and Prabowo, have narrowed significantly. On the economic front, we are mindful that the recent trade deficits were largely due to seasonal factors and expect some improvements in the external balances post-Ramadan period. Lastly, we expect BI to keep its key rates unchanged for the rest of the year as inflationary pressures remain manageable.